

**ILLINOIS COMMERCE COMMISSION**  
**DOCKET NOS. 02-0798/03-0008/03-0009 (Consolidated)**

**SURREBUTTAL TESTIMONY**

**OF**

**JON R. CARLS**

**Submitted On Behalf Of**

**CENTRAL ILLINOIS PUBLIC SERVICE COMPANY,**

**d/b/a AmerenCIPS,**

**and**

**UNION ELECTRIC COMPANY,**

**d/b/a AmerenUE**

**June 2003**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NOS. 02-0798/03-0008/03-0009 (Consolidated)**

**SURREBUTTAL TESTIMONY OF**

**JON R. CARLS**

**SUBMITTED ON BEHALF OF**

**CENTRAL ILLINOIS PUBLIC SERVICE COMPANY**

**d/b/a AmerenCIPS**

**and**

**UNION ELECTRIC COMPANY**

**d/b/a AmerenUE**

**Q. Please state your name and business address.**

**A.** My name is Jon R. Carls. My business address is 607 East Adams,  
Springfield, Illinois 62739.

**Q. Are you the same Jon R. Carls who filed direct and rebuttal testimony  
in this proceeding?**

**A.** Yes, I am.

**Q. What is the purpose of your surrebuttal testimony?**

**A.** The purpose of my surrebuttal testimony is to respond on behalf of Central  
Illinois Public Service Company, d/b/a AmerenCIPS, and Union Electric Company, d/b/a  
AmerenUE, collectively referred to as “Ameren” or “Company”, to Staff and intervenor  
rebuttal testimony regarding the interruptible rate, residential block rates and the  
residential customer charge. These topics were addressed by Mr. Peter Lazare of the

23 Illinois Commerce Commission (“ICC”) Staff, and Mr. Richard Galligan for Citizens  
24 Utility Board (“CUB”).

25 **Q. What are Mr. Lazare’s proposals related to Ameren’s Large Use –**  
26 **Interruptible Delivery Service rate (currently Rate 21 and proposed to be re-named**  
27 **Rate 4)?**

28 **A.** Mr. Lazare continues to support elimination of the interruptible delivery  
29 service rate. His recommendation is premised on the fact that none of the customers  
30 currently on the rate have had their delivery service interrupted in over six years.

31 **Q. What is your response to Mr. Lazare’s proposal?**

32 **A.** Let me start by offering that a re-naming of proposed Rate 4 to  
33 “Constrained Delivery System” rate may help to clarify what service is offered under this  
34 rate. The term “interruptible” has a historical meaning usually tied to the curtailment of  
35 gas *supply* that may be misleading people in this instance.

36 The difference of opinion that exists between my proposal to continue to  
37 include such a rate for certain customers and Mr. Lazare’s proposal to eliminate it  
38 altogether centers around whether a customer who has a load connected to the system that  
39 is potentially greater than the capacity of the system is actually receiving firm service if  
40 they are not curtailed in some manner in a set number of years. Ameren continues to  
41 believe that these customers are not receiving fully firm service and the offering of this  
42 rate is advantageous when compared to the alternative of making system improvements  
43 to increase the design capacity of the system.

44 With regard to the three AmerenUE and one AmerenCIPS customers who  
45 do not face physical system constraints, but who have been previously “grandfathered”

46 on the rate, Mr. Lazare contends that “the appropriate starting point for ratemaking is cost  
47 of service, not customer impacts.” If the Commission believes that applying cost of  
48 service principles carries more weight than trying to minimize rate impact for these four  
49 customers, that is a choice it can make. It is my experience, however, that while the  
50 appropriate starting point is cost of service, the Commission frequently (indeed, in almost  
51 every case) considers rate impacts when designing rates.

52 **Q. What is Mr. Lazare’s proposal related to Ameren’s request to**  
53 **increase the first block in its Residential Delivery Service to 90 therms?**

54 **A.** Mr. Lazare continues to propose that the blocking of delivery rates at any  
55 level be abandoned in favor of a single flat rate (primarily to encourage conservation).

56 **Q. What is your response to Mr. Lazare’s proposal?**

57 **A.** I have two principal points. First, Mr. Lazare muddles the issue somewhat  
58 with respect to fixed cost recovery. Second, Mr. Lazare utterly ignores the effect of his  
59 proposal, which is intended to reduce consumption.

60 I believe that Mr. Lazare causes some confusion regarding my rebuttal  
61 testimony comments on recovery of fixed costs. Mr. Lazare chooses to take my  
62 testimony as a proposal to include all fixed charges in the Customer Charge. That is not  
63 what I have proposed. There are some fixed costs (e.g., meters) that are recovered  
64 through a customer charge, and others (e.g., mains) that are recovered through volumetric  
65 rates. I do not propose to change this. I address only problems associated with recovery  
66 of the fixed cost associated with items like mains through the volumetric rates.

67 Mr. Lazare states that “there are other fixed costs that are shaped by  
68 customer’s demands and therefore should be recovered in variable charges. For

69 customers with usage meters, the charge that most closely tracks their demands is the  
70 usage charge . . ." While there are some fixed costs "shaped by demand" that are  
71 recoverable through volumetric rates, it does not mean that the costs themselves are  
72 variable. If the Company introduced an inverted rate structure whereby each therm  
73 became increasingly more expensive, it would not follow that the Company could avoid,  
74 in the near term, any portion of its sunk, fixed investment in the distribution system  
75 regardless of changes in consumption. Rate design should (and typically does) recognize  
76 this immutable fact.

77           The problem with a single block is weather-driven variations in usage  
78 from year-to-year, as I explained in my rebuttal testimony. Ameren has a flat rate for all  
79 gas delivery rates except for residential, which is the class most prone to weather-driven  
80 variations in consumption. The use of weather normalized data in a test year suggests  
81 that the ICC agrees that variability due to weather can be a major problem.

82           **Q. Mr. Lazare suggests that Ameren is not satisfied being a monopoly**  
83 **provider, wants to receive as much revenue as possible from these captive customers**  
84 **up front and seeks to advance the interests of the Company at the expense of**  
85 **ratepayers and society as a whole. Please respond.**

86           **A.** I assume Mr. Lazare is trying to divert attention from the fact that he is  
87 proposing a rate structure intended to reduce consumption, but Staff is making no  
88 adjustments to the billing determinants to reflect any change in consumption. I have  
89 explained that test year usage must be adjusted if his proposal to implement a flat rate is  
90 adopted to encourage "conservation" (i.e., a reduction in consumption). Mr. Lazare's

91     apparent response is to ignore the facts and engage in name-calling instead. This is  
92     hardly the basis for sound, reasoned regulatory policy.

93             **Q.     What does Mr. Galligan propose regarding block rates?**

94             **A.**     He continues to argue that the first block should remain at 50 therms and  
95     spends some time in his rebuttal criticizing me for not adequately rebutting his proposal  
96     point by point. It is Mr. Galligan's direct testimony which failed – he spends much of it  
97     comparing my proposed 90 therm block to an unblocked structure, and then he simply  
98     concludes that the status quo should be maintained and a 50 therm block remain. There  
99     simply was no direct correlation between his comparisons to an unblocked rate and his  
100    conclusion that a 50 therm block be retained to which I could submit rebuttal.

101            The proposals in testimony then are for a 50 therm block rate to remain, to  
102    switch to a 90 therm block rate or go to an unblocked flat rate. Ameren believes the  
103    90 therm block to be the best proposal for residential delivery service.

104            **Q.     Does Mr. Galligan also propose that the residential Customer Charge**  
105    **not be increased to the amount supported by the Cost of Service Study?**

106            **A.**     Yes, Mr. Galligan has adopted the status quo approach to this part of the  
107    residential rate also. When one cuts through all of the criticisms of my rebuttal testimony  
108    as not being supported by economic theory or in the mainstream of regulatory practice,  
109    the real proposal he makes is simply “leave it the same as it is.” That means that he is  
110    proposing that either Ameren not be allowed to recover its class revenue requirement or  
111    that costs be shifted to classes other than residential. His position on that is unclear, but it  
112    is clear that he just does not want the residential customer charge to change because he  
113    feels it is higher than his calculated avoided cost. His proposal to retain the status quo is

114 no more applicable here than it was in the issue of retaining a 50 therm block and should  
115 be rejected.

116 **Q. Have you calculated new proposed rates to reflect the changes**  
117 **proposed by other witnesses in this case?**

118 **A.** Yes, AmerenCIPS Exhibit No. 34.1 is an updated Rate Design worksheet  
119 which replaces AmerenCIPS Exhibit No. 10.3 which was filed with my direct testimony.  
120 Likewise, AmerenUE Exhibit No. 34.1 replaces AmerenUE Exhibit No. 10.3. In  
121 developing these new proposed rates, I have utilized an updated Cost of Service Study by  
122 Ameren witness Phil Difani, which incorporates changes described in his testimony and  
123 that of Ameren witness Dottie Anderson, to allocate the updated revenue requirements  
124 for each company proposed by Ameren witness Tom Opich.

125 If the final order in these dockets should accept revenue requirement, cost  
126 allocation or rate design changes proposed by others, this rate design would need to be  
127 redone to properly reflect such changes prior to filing compliance tariffs.

128 **Q. Does this conclude your surrebuttal testimony?**

129 **A.** Yes, it does.

**AmerenCIPS**  
**Rate Design**  
**Calculation of Base Revenues excluding PGA charges and Taxes**  
**Weather normalized**

		<u>Ann'l WN Therms</u>	<u>Deliv Chg</u>	<u>Delivery Chg \$</u>	<u>Ann'l Bills</u>	<u>Cust Chg</u>	<u>Cust Chg \$</u>	<u>Total Del. &amp; Cust. Chg.</u>	<u>Fac. Chg.</u>	<u>Total Base Rev.</u>	<u>Spec. Cont. and Other Revenue</u>	<u>Proposed Total Rev \$</u>	<u>Revenue Rqmt.</u>	<u>Difference from Revenue Rqmt.</u>
Residential - Block 1	Rate 10 (1)	90,358,275	\$ 0.2000	\$ 18,071,655										
Residential - Block 2	Rate 10 (1)	47,122,948	\$ 0.1401	\$ 6,601,925										
Total Residential	Rate 10 (1)	137,481,223		\$ 24,673,580	1,836,029	\$ 11.50	\$ 21,114,334	\$ 45,787,914		\$ 45,787,914	\$ 1,035,369	\$ 46,823,283	\$ 46,823,861	\$ (579)
Gen. Del. - Small Meter	Rate 11(2)				170,436	\$ 17.60	\$ 2,999,674							
Gen. Del. - Large Meter	Rate 11(2)				33,480	\$ 102.00	\$ 3,414,960							
Gen. Del. - System Gas		46,703,058	\$ 0.1731	\$ 8,084,299										
Gen. Del. - Transp. Gas		3,051,476	\$ 0.1438	\$ 438,802										
Total Gen. Del.	Rate 11(2)	49,754,534		\$ 8,523,102	203,916		\$ 6,414,634	\$ 14,937,736	\$ 61,350	\$ 14,999,086	\$ 221,789	\$ 15,220,875	\$ 15,220,890	\$ (15)
Large Use-Firm Del.	Rate 20 (3)				3,545	\$ 410.00	\$ 1,453,450	\$ 7,224,828	\$ 135,330	\$ 7,360,158	\$ 94,003	\$ 7,454,161		
Large Use-Firm Del. Sys	Rate 20 (3)	17,569,342	\$ 0.0971	\$ 1,705,983										
Large Use-Firm Del. Tra	Rate 20 (3)	60,496,953	\$ 0.0672	\$ 4,065,395										
Large Use-Interup. Del. Sys					151	\$ 410.00	\$ 61,910	\$ 167,135		\$ 167,135		\$ 167,135		
Large Use-Interup. Del. Sys	Rate 21 (4)	781,397	\$ 0.0777	\$ 60,699										
Large Use-Interup. Del. Tra	Rate 21 (4)	828,243	\$ 0.0538	\$ 44,526										
Total Large Use		79,675,935		\$ 5,876,603	3,696		\$ 1,515,360	\$ 7,391,963	\$ 135,330	\$ 7,527,293	\$ 94,003	\$ 7,621,296	\$ 7,620,784	\$ 512
Total System		266,911,692		\$ 39,073,285	2,043,641		\$ 29,044,328	\$ 68,117,612	\$ 196,680	\$ 68,314,292	\$ 1,351,161	\$ 69,665,453	\$ 69,665,535	\$ (82)



**AmerenUE**  
**Rate Design**  
**Calculation of Base Revenues excluding PGA charges and Taxes**  
**Weather normalized**

		<u>Ann'l WN Therms</u>	<u>Deliv Chg</u>	<u>Delivery Chg \$</u>	<u>Ann'l Bills</u>	<u>Cust Chg</u>	<u>Cust Chg \$</u>	<u>Total Del. &amp; Cust. Chg.</u>	<u>Fac. Chg.</u>	<u>Total Base Rev.</u>	<u>Other Revenue</u>	<u>Proposed Total Rev \$</u>	<u>Revenue Rqmt.</u>	<u>Difference from Revenue Rqmt.</u>
Residential - Block 1	Rate 1	9,251,848	\$0.2543	\$2,352,745										
Residential - Block 2	Rate 1	<u>5,126,725</u>	\$0.1780	<u>\$912,608</u>										
Total Residential	Rate 1	14,378,572		\$3,265,353	202,871	\$ 15.00	\$3,043,065	\$6,308,418		\$6,308,418	\$132,003	\$6,440,421	\$ 6,440,437	\$ (16)
Gen. Del. - Small Meter	Rate 2				12,258	\$ 43.00	\$527,094							
Gen. Del. - Large Meter	Rate 2				<u>2,806</u>	\$ 93.00	<u>\$260,958</u>							
Gen. Del. - System Gas	Rate 2	5,170,651	\$0.1654	\$855,226										
Gen. Del. - Transp. Gas	Rate 2	<u>1,709</u>	\$0.1345	<u>\$230</u>										
Total Gen. Del.	Rate 2	5,172,360		\$855,456	15,064		\$788,052	\$1,643,508	\$660	\$1,644,168	\$33,907	\$1,678,075	\$ 1,678,196	\$ (121)
Large Use-Firm Del.	Rate 3				83	\$ 745.00	\$61,835							
Large Use-Firm Del. Sys	Rate 3	1,638,972	\$0.1303	\$213,558										
Large Use-Firm Del. Tra	Rate 3	<u>406,951</u>	\$0.0993	<u>\$40,410</u>										
Total Large Use		2,045,923		\$253,968	83		\$61,835	\$315,803	\$3,300	\$319,103	\$6,654	\$325,757	\$ 325,767	\$ (10)
Large Use-Interup. Del.	Rate 4				36	\$ 566.00	\$20,376							
Large Use-Interup. Del. Sys	Rate 4	483,860	\$0.0734	\$35,515										
Large Use-Interup. Del. Tra	Rate 4	<u>406,383</u>	\$0.0628	<u>\$25,521</u>										
Total Large Use Int.		890,243		\$61,036	36		\$20,376	\$81,412	\$660	\$82,072	\$1,765	\$83,837	\$ 83,843	\$ (6)
Total System		<b>22,487,098</b>		<b>4,435,813</b>	<b>218,054</b>		<b>\$ 3,913,328</b>	<b>\$ 8,349,141</b>	<b>\$ 4,620</b>	<b>\$ 8,353,761</b>	<b>\$ 174,330</b>	<b>\$ 8,528,090</b>	<b>\$ 8,528,243</b>	<b>\$ (153)</b>